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Mayor

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# Office of Internal Audit

Direct Deposit  
Activity

Ghost Employees





# Report

## Direct Deposit Activity

### "Ghost Employees"

May 2006

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CHIEF AUDIT EXECUTIVE

**Transmittal Letter**

May 1, 2006

The Honorable Jerry E. Abramson  
**Mayor of Louisville Metro**  
Louisville Metro Hall  
Louisville, KY 40202

**Re: Audit of Direct Deposit Activity for "Ghost Employees"**

**Introduction**

An audit of Metro Government employees' direct deposit activity was performed. The primary focus was the identification of possible "ghost employees". Internal Auditing best practices for fraud detection suggest that reviews of direct deposit activity be routinely performed since it is easier to conceal "ghost employees" using direct deposit than it is using actual paychecks.

The examination was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

**Scope**

The focus of the audit was to identify possible "ghost employees" through a review of direct deposit activity. The population of all Metro Government employees with direct deposit setup as of April 24, 2006 was reviewed. There were 4,824 employees identified as having direct deposit setup, and 79 bank account numbers were identified as being used by more than one employee. The personnel file for these employees was verified to ensure the person was an actual employee of the Metro

Government. The employment status was also verified for employees that work within the same agency, use the same bank account, and at least one in the pair has time keeping access in the Metro payroll system (PeopleSoft). It should be noted that determining if employees sharing accounts were related / married, or have supervisory authority over the other, was not an objective of this review.

### Results

There were no "ghost employees" identified as a result of this review. This indicates the control structure of the direct deposit procedures, with regards to employees versus non-employees, appears to be functioning as intended.

Sincerely,



Michael S. Norman, CIA  
Chief Audit Executive

cc: Louisville Metro Council Audit Committee  
Louisville Metro Council Members  
Deputy Mayors  
Secretary of the Cabinet for Finance and Administration  
Director of Human Resources  
Director of Finance

## **Background**

Internal Auditing best practices for fraud detection suggest that reviews of direct deposit activity be routinely performed since it is easier to conceal “ghost employees” using direct deposit than it is using actual paychecks. There were approximately 4,800 Metro Government employees using direct deposit as of April 24, 2006.

This was a scheduled audit.

## **Summary of Audit Results**

### **I. Current Audit Results**

See Results section of this report.

### **II. Prior Audit Issues**

The Office of Internal Audit previously audited direct deposit activity for “ghost employees” in August 2001 (for the former City of Louisville). Unless otherwise noted, all prior weaknesses have been satisfactorily addressed.

### **III. Statement of Auditing Standards**

The audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

### **IV. Statement of Internal Control**

A formal study of the internal control structure was *not* conducted during this review.

### **V. Statement of Irregularities, Illegal Acts, and Other Noncompliance**

The examination did not disclose any instances of irregularities, any indications of illegal acts, and nothing was detected during the examination that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Results section of this report.

## **VI. Views of Responsible Officials / Action Plan**

No actions are necessary at this time.

## Results

### **Scope**

The population of all Metro Government employees with direct deposit setup as of April 24, 2006 was reviewed in order to identify duplicate bank account numbers. Computer assisted audit tools (e.g. Microsoft Excel and Access, and PeopleSoft payroll system) were used to perform this review. There were 4,824 employees identified as having direct deposit setup. From this activity, 79 bank account numbers used by more than one employee were identified. The personnel file for these employees was verified to ensure the person was an actual employee of the Metro Government. The employment status was also verified for employees that work within the same agency, use the same bank account, and at least one in the pair has time keeping access in the Metro payroll system (PeopleSoft). *It should be noted that determining if employees sharing accounts were related / married, or have supervisory authority over the other, was not an objective of this review.* The results are as follows.

### **Results**

There were no “ghost employees” identified as a result of this review. This indicates the control structure of the direct deposit procedures, with regards to employees versus non-employees, appears to be functioning as intended.

### **Recommendations**

No recommendations are needed at this time.